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C O N F I D E N T I A L SECTION 01 OF 07 TOKYO 002589

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SUBJECT: SCENESSETTER FOR THE PRESIDENT'S NOVEMBER 13-14  
VISIT TO JAPAN

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11. (C) Begin Text of Scenesetter:

Dear Mr. President:

Welcome to Japan. It is fitting that you begin your inaugural visit to Asia here as the U.S.-Japan Alliance remains the indispensable foundation of U.S. strategy in Asia. Prime Minister Hatoyama and his administration have stressed the value of the U.S.-Japan relationship and look forward to using your visit to underscore publicly the strength of the U.S.-Japan alliance. Beyond the Prime Minister and his cabinet, the Japanese public has also eagerly awaited your arrival. The optimistic theme of "Yes, we can" has caught the imagination of countless Japanese, particularly with respect to the vision of a world without nuclear weapons outlined in your April speech in Prague as well as your determination to chart a new path for U.S. policy on global issues such as climate change.

The Democratic Party of Japan,s (DPJ) landslide victory in the August 30 Lower House election has dramatically altered Japan,s political landscape, marking the end of the former ruling Liberal Democratic Party,s (LDP) virtually uninterrupted 54-year rule. New Prime Minister Yukio Hatoyama and the DPJ have laid out an ambitious domestic agenda as well as a foreign policy vision aimed at a "more equal" relationship with the United States and a greater emphasis on Asia.

Nonetheless, the DPJ,s victory was less a full-fledged endorsement of the DPJ,s philosophy by Japan,s electorate than it was a rejection of the LDP. Disappointed with years of economic stagnation, growing employment insecurity and increasingly visible holes in the social safety net (including the loss of millions of pension records), Japanese voters turned to the DPJ, which had promised solutions to these problems and fundamental "change" in the way Japan is governed, including giving more authority to elected leaders as opposed to the bureaucracy.

The U.S.-Japan Alliance remains strong, and Prime Minister Hatoyama has made clear that continuing good relations with the United States is one of his highest priorities. Japan has been a strong supporter of U.S. diplomatic objectives in

the region and globally. It has provided invaluable support to our policies regarding North Korea, Afghanistan/Pakistan, Iraq, Iran and the Middle East peace process. Japan,s recent announcement of a 25 percent cut in greenhouse gasses over 1990 levels is a major boost to global efforts toward a successful COP-5 summit in Copenhagen next month. Moreover, we anticipate Japan will announce around the time of your visit a very generous package of civilian assistance for reconstruction efforts in Afghanistan and Pakistan. Unlike earlier periods, with the exception of restrictions on market access for U.S. beef producers and level playing field concerns for the insurance sector, we have few major contentious trade issues with Japan. Our cooperation on the financial crisis has been good although there are still concerns about the long-term prospects for the Japanese economy.

All of this notwithstanding, the media has been keen to portray perceived differences on a few issues as symbolic of a change in the nature of U.S.-Japan relations. The issues most commonly cited are the new government,s statements on an "East-Asian Community" that initially appeared to exclude the United States, FM Okada,s investigation of the so-called secret accords from the 1960s regarding the introduction of nuclear weapons into Japan by United States forces, the discontinuation of the Maritime Self Defense Force,s overseas refueling missions in support of Operation Enduring Freedom, and the government,s hesitation to support our 2006 agreement on the realignment of U.S. forces and facilities in Japan, specifically the relocation of key base facilities within Okinawa, something the DPJ had opposed in its election campaign.

In order to keep the focus of your visit firmly on the

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positive accomplishments of the alliance and highlight our plans for even closer cooperation in the future, we are working with the Japanese government to announce during your visit the establishment of a bilateral interagency team to resolve outstanding issues on an expeditious basis related to the Japanese Government,s review of the Futenma replacement facility and other key alliance issues.

On November 6, I met with Chief Cabinet Secretary Hirano, who was receptive to this proposal. I am scheduled to meet with Prime Minister Hatoyama on this proposal November 10 but we expect a similar response. By putting contentious subjects into a separate channel, we hope to keep them off the agenda for your visit and remove them as a focus of media attention.

This approach would enable you to speak in more positive, future-oriented terms about the Alliance, to include the possibility of new initiatives to mark the 50th anniversary of the U.S.-Japan Security Treaty in 2010.

I have attached a briefing list of issues and background material for your reference. We look forward to seeing you in Tokyo.

John V. Roos  
Ambassador

12. (C) Begin text of checklist:

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Domestic Politics  
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New Prime Minister Yukio Hatoyama and his DPJ-led administration are expected to focus on domestic policy issues, consistent with the DPJ campaign manifesto. To project an image of competence, stability, and experience while quelling concerns about the party's ability to govern, the new 17-member Cabinet is stacked with current and former DPJ leaders and senior officials, former cabinet ministers under previous Liberal Democratic Party governments, and

veteran politicians. The lineup represents the DPJ's wide ideological spectrum, from progressive to the far right, and the leaders of the DPJ's two coalition partners, the Social Democratic Party,s (SDP) Mizuho Fukushima and the People,s National Party,s (PNP) Shizuka Kamei, are also included. While the Cabinet has a number of allies of the DPJ's powerful Secretary General, Ichiro Ozawa, there are also some new Cabinet members antagonistic to him. Hatoyama succeeded Ozawa as DPJ President in the spring in the wake of a financial scandal involving an Ozawa aide and it remains to be seen to what extent Ozawa wields behind-the-scenes power in Hatoyama,s government. Hatoyama is currently embroiled in his own campaign finance scandal, the seriousness of which is still unknown. Similarly, the Liberal Democratic Party's (LDP) role in opposition is an open question.

The DPJ has moved to strengthen the administration,s role in budget and policy formulation. Former DPJ President Naoto Kan heads a new National Strategy Unit (NSU), which will be responsible for formulating a framework for the budget and creating a broad domestic policy vision. The DPJ wants the NSU to become the primary organ for political supervision of the policy process in order to shift decision-making from bureaucrats to elected politicians. It appears the NSU will focus on several of the more budget-rich, pork-laden "domestic" bureaucracies, with only limited attention to foreign and national security agencies.

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Bilateral and Security Issues  
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-- Support for the Alliance: We are engaging the new DPJ Administration on its policy approach to security relations, extending beyond the realignment issue. On one hand, Prime Minister Hatoyama has publicly acknowledged that the Alliance remains the cornerstone of Japan's foreign policy. On the other, the DPJ Government is reexamining components of

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bilateral defense cooperation, including the following:

--Refueling: Since the Koizumi Administration, the Japanese Maritime Self Defense Forces have refueled vessels of coalition countries in the Indian Ocean in support of Operation Enduring Freedom (OEF). The DPJ Government, in keeping with pre-election campaign pledges, appears poised to terminate this operation with the lapse of authorizing legislation in January.

-- "Secret" Nuclear Agreement: Reports of the existence of "secret" agreements between the United States and Japan dating from the 1960s has caused mild media interest focused on Japan's "three non-nuclear principles" of not producing, possessing or allowing introduction of nuclear weapons into Japan. Former Vice-Foreign Minister Ryohei Murata, who served as Vice Foreign Minister from 1987-89, disclosed to local press the existence of the agreement between the U.S. and Japan (declassified in the U.S. in 1999 and available publicly), that allowed nuclear-armed U.S. vessels and aircraft into Japan. Although Japanese bureaucrats still deny the existence of ant agreement, Prime Minister Yukio Hatoyama has vowed to clarify the issue. Foreign Minister Okada on September 16 ordered MOFA officials to begin an investigation into this and other purported "secret" U.S.-Japan agreements. MOFA has started a document review at MOFA headquarters and the Japanese embassy in Washington D.C. to find Japanese documentary evidence of the agreement. Foreign Minister Okada ordered a report on the findings by the end of November. He has offered to discuss the investigation with us if we have any concerns.

-- Disarmament and Non-Proliferation: The GOJ has welcomed the President,s initiatives on disarmament, beginning with his speech in Prague. Former Foreign Minister Nakasone gave his own speech in April in response, outlining 11 benchmarks

for disarmament (ref TOKYO 00981). Foreign Ministry counterparts have told us that Japan would attempt to push these steps for adoption in some form at the 2010 RevCon, but it is unclear if the new DPJ government will follow the previous administration's plan. The Japanese disarmament community, centered on several NGOs and the mayors of Hiroshima and Nagasaki, has enthusiastically welcomed the President's disarmament initiatives. The two mayors have asked for the chance to present you personally during your visit an invitation to their cities which they hope to realize prior to the 2010 RevCon.

-- SOFA: DPJ politicians, prefectural governors in particular, have talked about pursuing changes to the Status of Forces Agreement (SOFA) to address perceived public concerns about criminal jurisdiction and environmental issues associated with U.S. base facilities. Despite publicity on this subject, the new Japanese Government to date has made no request to revise the SOFA. If the Government decides to reaffirm realignment plans, however, there may be a push to enhance the deal with a new bilateral approach to base-related environmental issues.

--HNS: Host Nation Support (HNS), defines bilateral cost-sharing for U.S. Forces stationed in Japan. HNS totaled USD 4.3 billion in FY 2008, but has declined 15 percent since 1997. The Hatoyama Government has discussed possible moves to reduce HNS further, even though we are meeting our commitments to Japan under the Mutual Security Treaty undiminished, despite our own fiscal constraints. Currently, both sides are conducting a "Comprehensive Review" of Host Nation Support to ensure that the package is economically efficient and politically sustainable.

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Foreign Relations  
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-- Afghanistan-Pakistan: Japan has been a generous contributor to international efforts in Afghanistan and has already contributed \$2 billion for rule of law and other reconstruction needs. Most significantly, this year Japan

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paid the salaries of 80,000 Afghan National Police for six months. The Government is in the final stages of preparing an estimated 4-6 billion dollar civilian assistance package for Afghanistan and Pakistan, which Prime Minister Hatoyama will likely announce immediately prior to your visit. Through this assistance, Japan intends to signal its continuing commitment to multilateral efforts in the fight against terror. In the April Friends of Democratic Pakistan conference, Japan pledged \$1 billion in assistance to Pakistan. We are waiting for a clearer understanding of the DPJ's aid priorities. The DPJ's leadership has said it will favor projects in Pakistan with a "human focus," such as education, health, and small farmer agriculture, rather than infrastructure and promotion of economic growth. Ultimate decisions on the focus of its Pakistan aid package could also portend broader shifts in Japan's global aid priorities under a DPJ-led government. We look for the new government to demonstrate leadership in contributing to the stability of Afghanistan and Pakistan

-- Iraq: Japan is the second largest contributor to Iraqi reconstruction and is moving to establish an office in Erbil. In January the two countries signed a "Comprehensive Partnership" agreement.

-- Iran: Japan maintains a "normal" relationship with Iran and sees itself as a possible intermediary between Iran and the United States. Deputy Foreign Minister Sasae traveled to Tehran September 5-6 and agreed to carry a message urging that Iran take the opportunity presented by the P5 plus 1 offer and resolve all outstanding cases regarding American citizens missing and detained in Iran. Sasae also expressed

concerns about freedom of expression and human rights in the aftermath of the June Presidential election. MOFA contacts called Iran,s September 9 response to the P5 plus 1 disappointing and have stressed that any new sanctions against Iran must be implemented effectively by China and India to have any meaning. During the October 7 meeting of like-minded countries on Iran (G-7, Australia, South Korea, Saudi Arabia, UAE), Japan noted that it was uncomfortable with measures that would impact commercial activities and preferred to work within the framework of new UN Security Council Resolutions. Japan did not support diplomatic isolation of Iran.

-- Middle East Peace Process: Japan plays a role in supporting the Middle East Peace Process and is broadly supportive of U.S. efforts to restart negotiations. In that context, MOFA has sounded out Southeast Asian countries, in particular Indonesia, Malaysia, and Singapore, about a Japan-led initiative to build international support for Peace Process discussions, particularly among Southeast Asian countries. Japan,s Special Middle East Envoy Iimura traveled to Southeast Asia recently to discuss the proposal, receiving cautious but interested responses. While Japan has traditionally focused on development assistance to the Palestinians, we have continued to encourage the GOJ to consider budget support to the Palestinian Authority. The GOJ has continued to say that it is considering budget support but has offered no definitive reply.

-- China: Japan's relations with its other immediate neighbors are generally stable, although problems persist just beneath the surface. Prime Minister Hatoyama will look to continue the efforts of Former Prime Minister Aso, who had been successful in defusing the sharp conflicts over history that damaged relations with China during the Koizumi years. Hatoyama participated in the second stand-alone Japan-China-South Korea Trilateral Dialogue in October. Japan restarted its version of the Strategic and Economic Dialogue (S&ED) this summer after a long hiatus. While Japanese acknowledge that good U.S.-China relations are in Japan's interest, they also fear that the United States will discount Japan's interests in pursuit of more robust relations with China. Japan has been sensitive to recent Chinese actions around the disputed Senkakus and has sought explicit U.S. reassurance on our commitment to aid Japan in the case of an attack on the islands. Japan has also opposed

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China,s apparently unilateral exploration of oil and gas fields in the East China Sea the two countries have pledged to jointly develop. Japan also has been wary of falling behind China in securing access to natural resources.

-- North Korea: Discussions on the situation in North Korea and the status of the Six-Party Talks will be a constant theme during your visit and will draw widespread press attention. Japan remains exceedingly uneasy about the DPRK in light of its nuclear tests, missile launches over the Sea of Japan, and bellicose rhetoric. You will be expected to express concern for the fate of Japanese citizens abducted by the DPRK, and your words will be parsed carefully for any clues to potential changes in our approach, particularly given recent consideration of a bilateral meeting and a possible trip to North Korea by Ambassador Bosworth.

-- South Korea: Territorial disputes over the Liancourt Rocks (Takeshima/Tokdo) and history issues remain an irritant to relations with South Korea, but both sides have expressed a desire to build a Japan-ROK relationship that is "different from the relationship up until now." Under the administration of former Prime Minister Aso, the pace of "shuttle diplomacy" picked up markedly. On the defense and security side, your meetings with the ROK and Japanese defense ministers, as well as the trilateral defense ministerial on the margins of the Shangri-la Dialogue in Singapore, provided much-needed momentum for the U.S.-Japan-ROK Defense Trilateral Talks.

All three countries cooperated closely in the events leading up to the DPRK nuclear and missile tests earlier in the year.

The South Korean and Japanese governments have considerable interest in each other's respective realignment initiatives with the United States, as well their anti-piracy operations.

--Japan,s Concept of an East Asian Community: As part of its overall efforts to improve relations with its neighbors, the DPJ government has proposed the establishment of an East Asian Community with the goal of pursuing an ambitious program or regional integration along the lines of the European Union. While, short on specifics, the idea has nevertheless generated a certain amount of controversy, mainly because it was unclear at first whether Japan was proposing an East Asia community that was open to the United States. In an address to the Japan,s Foreign Correspondents Club, FM Okada stated that his vision of the community would include members of the East Asian Summit (i.e., China, Korea, Japan, ASEAN members, Australia, New Zealand, and India), but not the United States. During his recent visit to Beijing to attend the Trilateral Dialogue, PM Hatoyama suggested that Japan had perhaps focused too much on its alliance with the United States at the expense of Asia. However, in a more recent policy address at the East Asian Summit in Thailand, Hatoyama clarified that Japan,s relationship with the United States is the cornerstone of its foreign policy, and that Japan would on this basis seek to strengthen and expand its ties with its Asian neighbors.

-- Climate Change/Energy Security: Hatoyama's September 7 announcement that the GOJ would target a 25 percent reduction in greenhouse gas emissions, from 1990 levels, by 2020 is far more ambitious than the cuts proposed by former Prime Minister Aso. A substantial part of these cuts will have to come in the form of carbon credits from developing countries, most likely through vastly expanded Japanese ODA for clean energy projects, especially in Asia. Japan is expected to propose a framework for expanded assistance from developed countries to developing countries to reduce their emissions and adapt to effects of climate change at the UNFCCC talks currently underway in Barcelona. The new targets were set with little or no consultation with Japanese ministries to the dismay of the bureaucracy, particularly the Ministry of Economy, Trade and Industry (METI). Many Japanese businesses and the opposition LDP will also almost certainly ramp up their resistance as the DPJ moves toward implementation of the targets, though some sectors such as next-generation vehicles, solar, wind and nuclear will see expanded business opportunities under the new Administration. The DPJ, like

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its predecessor, has also emphasized diversification of Japan,s energy supply and stable relations with a broad range of natural resource suppliers.

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The Economy  
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Japan remains the world,s second largest economy with a GDP of \$4.9 trillion (2008). The economy emerged from four consecutive quarters of contraction in the second quarter of 2009 ending the country,s deepest economic recession since World War II. After contracting 5.4 percent in 2009, the International Monetary Fund projects GDP to grow 1.7 percent in 2010. Growth is projected to be driven by a domestic stimulus package and a modest recovery in net exports. The latest unemployment rate of 5.3 percent is down from October,s record high 5.5 percent, but that figure masks a million unemployed Japanese who are paid small subsidies to not seek work. Japan's financial services industry was relatively insulated from the global financial crisis due to its conservatism and limited exposure to structured securities. However, export-oriented sectors of the economy, such as automobiles and electronics, suffered immensely.

Deflation remains a concern, as consumer prices fell 2.4 percent in August compared to the same month in 2008 and have fallen for four months straight. Foreign direct investment (FDI) in Japan, while up significantly over the past decade, remains low compared to other OECD nations, with FDI stock in Japan totaling \$179.6 billion in 2008 (3.6 percent of GDP), of which \$65 billion came from the United States. The comparatively low level of inward FDI hinders innovation, hampers competition and limits opportunities for increased productivity and transfer of knowledge -- all of which are important to promoting sustainable economic recovery.

The Hatoyama Cabinet has stressed the importance of higher domestic demand, which is very welcome in the broader context of returning to more balanced pattern of global growth. However, their proposed fiscal policy, outlined in its August 2009 campaign platform, has a populist bent as it primarily seeks to channel fiscal resources to households. The DPJ pledges called for increasing disposable income and encouraging consumption by abolishing provisional taxes rates, eliminating highway tolls, and providing subsidies for children and farmers. The proposed expenditures would cost about \$177 billion annually, or 3.6 percent of Japanese GDP. The administration also supports the development, production, and marketing of the latest technologies such as IT, biotechnology, and nanotechnology with particular focus on reducing the impact of global warming through renewable energy development and other green technologies, which the DPJ believes will foster new and large-scale employment, spur innovation and boost long-term GDP growth.

Economists believe the DPJ's policies should boost short-term economic growth, but worry that the new spending measures will cause additional strain in the medium term by adding to the national debt, which already totals almost 180% of GDP and is expected to surpass 200 percent of GDP in 2010.

The Hatoyama Cabinet, originally insisted it had identified existing revenue sources for these expenditure increases: "cuts in wasteful government spending"; rebalancing of surplus funds in special accounts; tax increases; and sales of government assets, but has recently reneged on its promise to not issue additional government bonds to pay for the stimulus measures citing a shortfall in tax revenue from the economic slowdown. Whether higher growth over the longer term can be sustained is open to question without productivity increases, particularly in the services sector.

The United States and Japan have, for several years, been discussing policies and structural reforms to improve our respective business and investment environments. The Japanese are very interested in a new framework modeled on the Strategic and Economic Dialogue the United States has with China, but most in the USG. believe a cabinet-level dialogue is unnecessary and would prefer the engagement with

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Japan be below the cabinet level and focus on generating concrete mutually achievable results, both short- and long-term.

End text of checklist.  
ROOS